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MNDY.OQ - Q3 2022 Monday.Com Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 14, 2022 / 1:30PM GMT

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PRESENTATION

Operator

Good day. My name is Alex, and I will be your conference operator today. At this time, I would like to welcome everyone to Monday.com's Third Quarter Fiscal Year 2022 Earnings Conference Call. I would now like to turn the call over to Monday.com's Director of Investor Relations, Mr. Byron Stephen. Please go ahead.

Byron Stephen

Good day, everyone, and thank you for joining us on today's conference call to discuss the financial results of monday.com's Third Quarter Fiscal Year 2022. Joining me today are Roy Mann and Eran Zinman, co-CEO of monday.com; and Eliran Glazer, monday.com CFO. We released our results for the third quarter fiscal year 2022 earlier today. You can find our quarterly shareholder letter, along with our investor presentation and a replay of today's webcast, under the News and Events section of our IR website at ir.monday.com. Certain statements made on the call today will be forward-looking statements, which reflect management's best judgment based on the currently available information. These statements involve risks and uncertainties that may cause actual results to differ from our expectations.

Please refer to our earnings release for more information on the specific factors that could cause actual results to differ materially from our forward-looking statements. Additionally, non-GAAP financial measures will be discussed on the call. Reconciliations to the most directly comparable GAAP financial measures are available in the earnings release and the earnings presentation for today's call, which are posted on the Investor Relations website. With that, let me now turn the call over to Roy.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Thanks, Byron. Good day, everyone, and welcome to our third-quarter earnings call. We are pleased to say that Q3 was another terrific quarter for Monday.com. We posted strong growth with enterprise customers, saw continued momentum in our new Work OS product suite with Monday CRM exceeding expectations, scaled our global workforce and operations and digital while generating positive adjusted free cash flow. We ended the quarter with a revenue of \$136.9 million, reflecting growth of 65% year-over-year on a reported basis or 68% on an FX-adjusted basis. Adjusted free cash flow of EUR 14 million, representing a 10% adjusted free cash flow margin. We are closely monitoring uncertainties in the macro environment and the impact it's having on our customers and our business.

We currently see 2 primary headwinds. First, we continue to see pockets of stress in our customer base, in particular, in Europe, with some indication of softness spreading to other regions. Second, since we have a large presence of business outside the U.S., the strong U.S. dollar has negatively impacted reported results and represents an FX headwind to revenue growth. Despite these uncertainties, new customer demand remains solid, and acquisition efficiency improved in Q3. While others are pulling back, we continue to see opportunities and invest for growth and gain market share. With our in-house business intelligence tools, big brain, we track every marketing campaign in detail, allowing us to easily adapt to changes in the business environment. Let me now turn it over to Eran to walk you through our Q3 product highlights.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Thank you, Roy. As Roy mentioned, our strong growth this quarter continues to be led by enterprise customers, with our enterprise base growing 116% year-over-year in Q3. We achieved this by delivering several key updates that are tailored to the needs of larger customers. We continue to invest heavily in the overall performance of the Workers platform, adding more enterprise features and functionality and building our direct sales organization in order to land larger and expand more with enterprise customers. Most notably, this quarter, we enhanced board load time by 25%, improved our mobile experience to achieve an amazing 99.8% crash-free rate, and significantly improved our strategic integration with both Salesforce and Jira to make them as seamless as possible. As a result, as of Q3, customers with 10-plus users now represent 76% of ARR, up from 70% a year ago. Customers with more than 50,000 in ARR now represent 26% of ARR, up from 18% a year ago. We intend to provide these 2 metrics on a quarterly basis going forward.

Next, I would like to highlight the continued success of our Work OS product suite, which represents a huge opportunity for money.com. In just 5 months since their launch, we've seen over 3,000 new customers adopt at least one of the new Work OS products. We are extremely encouraged by the adoption that we are seeing in these early stages, especially for Monier, which consists of over half of the new Work OS product sign-ups. Monday CellCRM is already rated as one of the best CRMs in the market, according to G2, and we continue to focus on making it even better through advancements such as new layouts and new reporting widget types. As a reminder, these new Work OS products have only been made available to new customers, and we are excited to roll out the products out to our existing customer base in the near future. With that, let me now turn it back over to Roy.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Thank you, Eran. Earlier this month, over 97,000 registrants from over 174 countries came together for our annual online conference Elevate. This exciting event offer customers training and product workshops on ways to make the most out of the Work OS, deep insights on how to boost efficiency and improve workflows, and inspiring talks from leading companies and fellow customers. We are also hosting additional invite-only events for industry leaders in New York City, London, and Sydney this month. We are extremely excited to meet many of our customers and partners in person in the coming weeks.

At Elevate, we opted to plan 1 free in honor of every registrant in place of sending physical gifts. Now we are taking this step further, and we'll plan 265,000 trees across 4 different forests in Southeast Africa over the next 18 months. This effort is a reflection of our ongoing commitment to making the planet sustainable, equitable and (inaudible). This effort is a reflection of our ongoing commitment to making the planet sustainable, equitable, and safe. Finally, such strong, consistent innovation and growth this quarter wouldn't be possible without our amazing team, which grew this quarter to over 1,550 employees around the world. We continue to invest in our people with new offices in New York City, Chicago, Miami, and Tokyo. We believe these spaces will invite even more collaboration and community for our teams while providing the flexibility they need to be

successful. These offices signify not only where we are right now but where we are going in the future. We are very proud of the growth we achieved this quarter and look forward to carrying this momentum into the end of the year. With that, I'll turn it over to Eliran to cover our financial and guidance.

Eliran Glazer - *monday.com Ltd. - CFO*

Thank you, Roy, and thank you to everyone for joining our call. Today the results will be in detail and provide updated guidance for the fourth quarter and full year 2022. We continue to deliver strong growth driven by customers increasingly adopting the broader monday.com Work OS and our product suite across the organization. Total revenue came in at \$136.9 million in the third quarter, up 65% year-over-year on an as-reported basis and 68% on an FX-adjusted basis.

Additionally, we saw continued operating margin expansion during the quarter, stemming from our platform-based lending expense strategy and operational efficiencies. Coming off historical highs, our net dollar retention rate, or NDR, declined slightly in the third quarter, negatively impacted by a strong U.S. dollar and our increasing ability to land larger initial deals. NDR for customers with more than \$50,000 in ARR was over 145%. NDR for customers with more than 10 users was over 135%, and our NDR for all customers was over 120%. As a reminder, our net dollar retention rate is a trailing 4-quarter weighted average calculation. For the remainder of the financial metrics disclosed, unless otherwise noted, I will be referencing our non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release.Ä

Third quarter gross margin was 89%. In the medium to long term, we continue to expect gross margin to remain in the high 80s range. Research and development expense was \$26.3 million or 19% of revenue compared to 17% in the year-ago quarter. We will continue to invest significantly in R&D throughout the remainder of the year as we build our product suite and scale our Work OS platform, both horizontally and vertically. Sales and marketing expense was \$82.4 million or 60% of revenue compared to 73% in the year-ago quarter. We anticipate sales and marketing expenses as a percentage of revenue to be in the mid-to-high 60s range in Q4. G&A expense was \$15.2 million or 11% of revenue compared to 11% in the year-ago quarter. Operating loss was \$2.2 million, and the operating margin was negative 2%. Net income was \$2.6 million. Diluted net income per share was \$0.05 based on 50.3 million fully diluted shares outstanding.

Total employee headcount was 1,552, an increase of 63 employees since last quarter. We continue to execute on our hiring playbook that we laid out at the beginning of the year with elevated hiring in the first half and a much slower rate in the second half. We anticipate that this current level of hiring will be consistent moving forward. Moving on to the balance sheet and cash flow. We ended the quarter with 852.6 million in cash and cash equivalents. Net cash provided by operating activities was \$20 million in the quarter. Adjusted free cash flow was \$14 million, including approximately \$7 million from financial income. Adjusted free cash flow margin was 10%, adjusted free cash flow is defined as net cash from operating activities, less cash used for property and equipment, and capitalized software costs, excluding nonrecurring items. Now let's turn to our updated outlook for the fiscal year 2022.Ä

For the fourth quarter of fiscal year 2022, we expect our revenue to be in the range of \$140 million to \$142 million, representing growth of 47% to 49% year-over-year. We expect a non-GAAP operating loss of \$22 million to \$20 million. For the full year 2022, we now expect as-reported revenue to be in the range of \$509 million to \$511 million, representing growth of 65% to 66% year-over-year. We now expect a full-year non-GAAP operating loss of \$83 million to \$81 million and a negative operating margin of approximately 16%.

With the recent strengthening of the U.S. dollar, we estimate that at the current spot rate, FX will negatively impact our full-year revenue growth estimate by approximately 300 basis points. Given the concerns about the macro economy and the market, we have provided what we believe to be achievable forward-looking guidance. Please note that we will be introduced guidance for the full year 2023 in our fourth-quarter earnings. In sum, we remain committed to balancing healthy growth in the business while also sustaining disciplined on improving efficiency and profitability. We have had an abundance of great opportunities ahead, and we'll continue to make decisions with the longer-term view. I'll now turn it over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question for today comes from Steve Enders of Citi.

Steven Lester Enders - Citigroup Inc., Research Division - Research Analyst

I just want to dig in a little bit more into some of the outlook that you're seeing out there and particularly what you're seeing on the billing side. Are there going to be any change in customer dynamics either with the FX impact that came in, in the quarter, or anything around deal durations or any split between the kind of SMB or Esprit you're seeing out there with customers?

Eran Zinman - monday.com Ltd. - Co-Founder, Co-CEO, & Director

Yes, sure. Steve, this is Eran. So first of all, I want to start with all our underlying fundamentals are very strong. We continue to see very strong enterprise growth. NDR keeps remaining very high and stable. And we can see the early adoption of our new Work OS products. As we mentioned also in the previous quarter, we continue to see the same FX headwinds that we had that have an impact on our revenue growth and also NDR. And as we mentioned as well, we see some softness in Europe that also continued into Q3. One thing to mention in addition that in September and October, we started to see some indication that the softness is kind of spreading a bit more roll. So definitely, we do see that as well. But from another perspective in terms of performance marketing, we continue to heavily invest for new customers. I would say that becomes more efficient for us to acquire customers lower bids in the market. And definitely, it's an option for us to gain a larger market share. And also our free-to-pay conversion overall funnel remains very stable. So taking all of that into account, all the fundamentals remain very [indiscernible].

Steven Lester Enders - Citigroup Inc., Research Division - Research Analyst

I guess just again on the kind of profitability upside in the quarter. I guess can you dig in a little bit more about kind of what were the drivers there? Were there any kind of delay in spend that you have that maybe you shifted some things into 4Q or maybe some changes in kind of hiring expectations? Can you just kind of dig in (inaudible)?

Eliran Glazer - monday.com Ltd. - CFO

Sure, Steve. It's Eliran. So first of all, welcome to the conference meeting for the first time. We were operating in accordance with our playbook. We have a system called a big brain that is measuring everything that we do. And going back to what Eran said, our performance marketing and marketing spend overall is lower than anticipated because the cost per sign-up went down. Therefore, we benefit from this efficiency. Obviously, we beat the top line by \$6 million, and this impacted our (inaudible) on our discretionary spending, if there is not necessarily things to do in advance or travel, then, obviously, we are more cautious with the level of spend. So all of this together, combined with our -- the way we manage the business from an efficiency perspective and the playbook that we apply drove the great margins that we saw in this quarter.

Operator

Our next question comes from Pinjalim Bora from JPMorgan.

Pinjalim Bora - JPMorgan Chase & Co, Research Division - Analyst

Congrats on the quarter. I want to ask on the work away production, it seems pretty impressive results. Can you help us understand what kind of price points those things -- those new products are landing at? It seems like CRM is doing well. What about the other parts, the other 3 products? And then how should we think about the contribution of those products this year?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. And Jean, thanks for the question. This is Eran. So definitely, we're very happy and excited, and we are encouraged from the results we're seeing so far with the new Work OS products. I would say all of them are successful. CRM definitely stands out as being the most dominant one. We mentioned over 50% of new customers that are behind those people to the product -- and just to mention that all these new customers are basically new paint customers. So we just open it up as of now, just for new customers. We haven't started cross. All those products have a different price point, and definitely, that's another upside that we take into account. We didn't put that into the model we have because it's still early days and small numbers. But definitely, the momentum that we're seeing and the growth is very encouraging and very promising for the future. That's probably the reason why we're so excited about this.

Pinjalim Bora - *JPMorgan Chase & Co, Research Division - Analyst*

Understood. One question for Elran on billings. When we look at the sequential billings, growth seems a little bit muted. I was wondering if you can tease out the FX impact on billings or if you're seeing any kind of a change in invoicing duration. And how should we think about billings going forward? Do you think it could lag revenue in the near term?

Eliran Glazer - *monday.com Ltd. - CFO*

Sure. So when we speak about calculated billings, we mentioned this is not the best measurement of our business. We believe revenue growth, customer growth, and NDR are the best indicators of the health of the business. Calculated billings were definitely impacted by the FX. If you think about the fact that 30% of our ARR is in currencies that are not U.S. dollar, name 10% euro, about 5% British pound, and (inaudible) these other currencies, definitely, it has impact on the calculated billings overall.

Operator

Our next question comes from Brent Bracelin from Piper Sandler.

Brent Alan Bracelin - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

And great to see the momentum in the business and the return to positive free cash flow. I wanted to double-click into the CRM product. What's resonating with customers here on the product? Is the profile of new customers changing? Is it a larger customer willing to spend more from a user perspective? Is it a smaller customer? Any color you could provide around the type of customer and what's resonating with that type of customer for the new CRM product would be great.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

This is Roy. So yes, so I think CRM is... We tapped into a new market. We've seen new customers of a new kind, and we also see them comparing us to other companies that we were not compared to before. So like Iran said, the type of customers that are joining us are completely new. It's like -- it's not existing customers. And so obviously, they start off from like a different scale. They want different things. And this is very encouraging for us because it proves for us that Monday is a true platform that has completely different products on it. And obviously, CRM requests differ greatly from (inaudible) to manage customers, e-mail them and manage the whole life cycle of the customer. And one of the great powers that we see that customers buy into Monday in CRM is its customizability. The fact that they can really do everything with it and that they never hit the wall. And that's something that a lot of -- it gives us a massive competitive edge compared to other platforms that they compare us to. I hope this answers the question.

Brent Alan Bracelin - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Helpful color there, for sure. And then I guess, Eliran, as you just think about sales and marketing efficiency, pretty dramatic improvement in just a 2-, 3-quarter period here. Can we just double-click into kind of the drivers of it? Was there an element of lower CPM pricing that's helping here? Just walk through how you were able to drive such impressive improvement in sales and marketing efficiency.

Eliran Glazer - monday.com Ltd. - CFO

Thanks, Brent, yes. So in the third quarter, and I think throughout the time that we gave the earnings calls, we are operating in currency with our playbook. And we said that we have the ability due to the big brand and the efficiency metrics that we are operating. We have the ability to (inaudible) in the performance market. So what happened in the (inaudible) because the market environment has become more challenging across the board, in general, so the cost per click or the cost per sign-up is much lower today. Therefore, we are benefiting that, as we mentioned in the kind of the beginning of the call, we have the ability to measure every campaign, every companies do, what is their return. Therefore, we were able to relatively quickly adjust the spend. In addition, in H2, also, we said that we were going to be more prudent on hiring and look at other discretionary costs that relates to marketing. So altogether, this helped us to reduce the cost of marketing -- sales and marketing in general.

Operator

Our next question comes from Jackson Arbor from SVB Securities.

Unidentified Analyst

The first one, actually, if we can just follow up on that comment on hiring. You've been rolling out a few more offices than the U.S., and I'm just curious what you're seeing in the labor market, whether it's a little bit maybe easier to hire some of the talents that you're looking for these days than it was, say, 6 or 12 months ago?

Eliran Glazer - monday.com Ltd. - CFO

Jackson, it's Eliran Yes, we don't see much of a change. Obviously, now when companies -- there are unfortunately some reduction in imports in other companies, it's easier to hire people, but I don't know to tell you that this is a dramatic move because I think the good people are still working for this company. So overall, I would say a lighter or more easier environment but not dramatically changed.

Unidentified Analyst

And then the follow-up is on the European market. You kind of called out the struggles there, but I'm curious whether you're seeing any maybe competitive impacts just in terms of a tough environment, maybe seeing some of the younger, smaller, more kind of start-ups received from the European market as it looks like it's going to be a tougher environment in the coming months.

Roy Mann - monday.com Ltd. - Co-Founder, Co-CEO & Director

Jackson, it's Roy. So yes, we definitely see less -- it's easier for us compared to others because of the stability of the platform because of the fact that we mentioned a few times about the marketing and the fact that we are still out there pushing the product. So all in all, like for us, because of the stability of the company and the platform, we see it as a positive. And I would -- I can add that a lot of -- we were always like Eliran said with our playbook, while other companies spend way more gave like different discounts and those kinds of stuff. And we don't see that anymore. So I'd say it's now easier for us to gain more market share.

Operator

Our next question comes from Ittai Kidron from Oppenheimer.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Eliran, in your prepared remarks, you talked about the decline in the dollar retention rate, explaining it as initial lands are getting bigger. Can you give -- can you be a little bit more specific, like what is an initial land right now? And how did it change over the past year?

Eliran Glazer - *monday.com Ltd. - CFO*

So first of all, as a reminder, our net dollar retention rate is the best in the industry. And we mentioned that over time, we are going to see a range if you think about what we said also prior quarter. So we said that we believe that the right range would be around 1.45% to 150% for our customers with 50,000 in AR. We said that we are going to remain around 35% for customers with 10-plus users and between 120% to 125% for all customers. So there is the impact of, first of all, FX with 30% of them are coming from customers that are paying in nondollar currency. Obviously, your starting point is different from your ending point. This kind of impacted a few basis points in our network retention rate. And obviously, in Europe, part of the macroeconomy environment is also pending some customers are waiting for decision makers to waiting with decisions to kind of expand their usage of Monday products. So the combination of these 2 is impacting the net retention rate. We don't expect any dramatic move, but this is the range that we feel comfortable with.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Okay. And then, can you talk about the competitive landscape? Has anything changed in the past quarter? And maybe you could tie in to churn? Has anything in churn changed?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thank you. This is Eran. So I'll start with the second part of your question. So we didn't see anything meaningful of an impact to neither our churn or downgrade, which I think kind of tells the stability that we've seen in our existing customer base. Apart from FX in terms of usage, we haven't seen anything significant. And overall, I think that's the first part of the question, sorry?

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

The competitive landscape, anything on that front, any changes?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes, I appreciate that. So we already mentioned this a little bit. So in terms of marketing-wise, we don't -- we see that we're able to grab a larger market share. Some of the other caps has lowered their marketing spend, which allowed us to grab a larger percentage. And also, this translates into the actual deals. And the deals that we do see competition, which are only 30%, 70%, we see still no competition. And the 30% that we do, we see less competitors, and also some of the competitors who were very aggressive in terms of discounts, become less aggressive. So that's something we see a momentum here where we're able to win more deals in deals that we compete with other players in.

Operator

Our next question comes from DJ Hynes of Canaccord.

David E. Hynes - *Canaccord Genuity Corp., Research Division - Analyst*

Congrats on the nice results. So at the elevated event, you guys spent some time talking about infrastructure upgrades that should improve scalability. I'm wondering if you could just unpack that a bit. Like what were the big changes? What should that enable you to do? And any color on that front would be helpful.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks for the question, Vijay. This is Eran. So yes, definitely, this is something that we worked really hard on, I would say, in the last 6 months and continue to heavily invest. I think part of our scale as a company, we attracted larger customers, and also our existing customers are really scaling their operation on Monday. Part of it presents some challenges in terms of handling large and a lot of data sets, improving performance, and keep improving what they're using. So definitely, it's a very positive trend that we're seeing. But at the same time, we need to -- we're constantly improving performance, speed, capability. So definitely something we're putting a lot of focus on (inaudible)

Operator

My apologies. We are having some audio issues. Please hold as I find a solution.

David E. Hynes - *Canaccord Genuity Corp., Research Division - Analyst*

So I think we were talking about upgrades. What that enables you to do? What the big changes were? Any color on the strategy there?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Can you hear me now?

Operator

Yes, we can hear you.

David E. Hynes - *Canaccord Genuity Corp., Research Division - Analyst*

Awesome. All right. So I think, Eran, you were talking about some of the infrastructure upgrades, kind of the improved scalability, what the big changes were, what that enabled you to do? Any color along those lines would be helpful.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks, DJ. Hopefully, you can hear me fine now. So as I've said, what changed was that our customers grew larger in their operations with a Monday scale, their usage, their data sets. And as part of that, we're also scaling our own infrastructure because we want to deliver an optimal experience for our customers. So definitely, we're putting a lot of efforts over there. We see our customers using Monday more and more over time, which is very encouraging, but we wanted to have a seamless experience doing that and don't suffer from any performance or scalability issues. So we've done a lot of changes in improvements and we're committed to do that in the upcoming quarters.

David E. Hynes - *Canaccord Genuity Corp., Research Division - Analyst*

Got it. And then maybe a follow-up, Eliran, just on the sales and marketing line, can you remind me how much of that line item it's people-based versus maybe more discretionary spend that you can flex up and down on the latter, kind of what's the strategy in the current environment?

Eliran Glazer - *monday.com Ltd. - CFO*

Yes, sure. So if you think about the (inaudible), I would say, around 30% to 35% is performance marketing, and about 65% is payer related for sales, customer success, partners, headcount, and related. So all in all, if we would like to adjust sales and marketing costs, we would relatively adjust the performance marketing, and therefore, we are able to do quick wins, if need, based on our efficiency metrics.

Operator

Our next question comes from Derrick Wood of Cowen & Company.

Unidentified Analyst

It's Andrew on for Derek. Just one for me actually. When are you planning to open up the suite to existing customers? And could that be an incremental growth lever early next year?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks for the question. This is Eran. So definitely going to outcome in the future. But right now, we're focused on keep iterating on the product and improving it. We get a lot of interest from our existing customers about these new products. And once we feel they are mature enough, we'll definitely open them up for our existing customers. We see a great opportunity for a cross-sell and upsell for our existing customers. Many of them are using money from many cases. They want to extend their usage (inaudible). So there's a lot of upside baked into that opportunity, but we want to do it in a proper way. And as I mentioned, we've already seen great momentum from new customers. So we keep improving and iterating on those products.

Operator

Our next question comes from Fred Lee of Credit Suisse.

Unidentified Analyst

Very nice quarter, particularly the enterprise customer adds and margin improvement. You've already touched on part of this, but I was wondering if you could talk more deeply about your -- how your go-to-market strategy is changing as companies look to cut costs? And also, how is the focus of the conversation changing at your larger customers?

Eliran Glazer - *monday.com Ltd. - CFO*

Yes. So the first part of the question regarding cost cutting. So a lot of companies, as you mentioned, are now kind of going through their SaaS stack or reevaluating the tools that they're using. But for us, we mentioned this in the previous quarter, and definitely, we see this trend increases. This presents a great opportunity. A lot of companies are looking into consolidation of SaaS tools that they're using. And Monday is really built from the bottom up for that purpose because every customer is Monday use money for many use cases. Some of them are kind of reevaluating the tools they're using and thinking about moving their operations to Monday. Some were the more you did -- we also did an operation within the company where we kind of guided our entire customer success team and sales team to offer that proactively for the customers, and we also see

success momentum there. So it's hard to tell how much Swills scale over time, but definitely, we've seen customers doing that. And Monday, as I've mentioned, it's a great bloom to do that. So there's definitely an opportunity there.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Yes. And it's Roy. I would add that, like on the churn side, we see a lot of stability within our customer base. So it talks to the platform and how much it's a port for many of our customers.

Eliran Glazer - *monday.com Ltd. - CFO*

And I think we missed your second part of the question, Fred, if you can repeat that?

Unidentified Analyst

Sure. The second part was just how the focus of conversations is changing at your larger customers, if at all?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Yes, it's Roy. So it's definitely a different conversation in terms of like the length of -- when we talk to new customers, the length it takes to create -- to close a deal, the number of people involved, then those kind of things are happening now, I think, for a lot of us around the world with a lot of companies, and we see that definitely is something that companies are looking into and like changing how they acquire new tools.

Operator

Our next question comes from Andrew DeGasperi from Berenberg.

Andrew Lodovico DeGasperi - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I guess my first question, and a follow-up to DJ's earlier on performance marketing versus sales headcount. I was just wondering, at the 35% number, what is it typically, I guess, historically has it been? And I guess, how should we expect it going forward? Would it be at this level? Or do you think it will ramp up?

Eliran Glazer - *monday.com Ltd. - CFO*

Andrew, it's Elian. So historically, if you look at Monday 5 years ago, and I think mentioned it in the past, it was an 80% to 90% performance marketing. But over time, we introduced a sales-led organization that including salespeople, partners, customer success managers, and obviously, the app marketplace. Over time, I think that we care a lot about the performance marketing. It generates leads. It gets us to new audiences. It brings a lot of traffic, a healthy traffic, I would say. And if you continue to operate in accordance with our playbook, I would say that 30%, by and large, will continue to be -- it can be 25%. It can be 32, but around 30% will continue to be performance marketing as long as it meets our efficiency criteria. In addition to that, we'll continue to invest in bringing headcount for our enterprise accounts, mid-tier, and SMBs. So I would say 25-30, 65-70% breakdown.

Andrew Lodovico DeGasperi - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

That's helpful. And then in terms of your referral partners, I saw it jump sequentially. I just wondered, are you doing anything different there? Should we expect that continued momentum?

Eliran Glazer - *monday.com Ltd. - CFO*

Yes. So we continue to invest in our partner ecosystem, definitely growing and expanding. I would say the partners are a little bit more affected by the headwinds that we see in Europe because most of them are not based in the U.S. So our partner is more footprint. But for us, as we mentioned, it's a strategic part of growing our business. It's a great way to go to market in territories, and we continue to scale and grow there. And also not just with referrals but also with kind of larger and more strategic partners that we partner with over time. So for us, it's a greater market and expansion options for our audience across the globe, and we'll continue to (inaudible).

Operator

Our next question comes from Scott Berg of Needham.

Scott Randolph Berg - *Needham & Company, LLC, Research Division - Senior Analyst*

2 quick questions here. On the first one, how are your tapping funnel activities today in the current macro versus maybe what you saw 3 months ago to start Q3 over 6 months ago to start Q2?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Scott, it's Roy. So you broke up for a second. Like you're talking about the funnel that we see, like customer fund...

Scott Randolph Berg - *Needham & Company, LLC, Research Division - Senior Analyst*

Yes, just top-of-customer funnel activities in terms of maybe size or complexity today versus last 2 quarters.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Yes. So like we mentioned, it's very healthy. We still see the same volume, and then we keep with our efficiency metrics like gaining more market share by adding more customers. The sales cycle has been longer in that respect, but we see a lot of quality customers, still strong demand for the platform across the board. So it's very stable.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

And maybe, Scott, this is Eran. Already, you can see in our shareholder letter. We actually attached to rate shows the growth in new accounts and showed the spend in performance marketing, like we mentioned, our top funnel remains very stable even though in terms of efficiency, we managed to spend back and require those customers is probably what we mentioned. But it's very important for us to demonstrate that we have greater efficiency, we managed to acquire the same amount of customers that time.

Scott Randolph Berg - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. The last question for me is your enterprise growth was very strong again in the quarter. How much of that growth is coming from new initial lands versus expansions from those types of customers today? And how do you expect that to maybe trend over the next couple of quarters as a result?

Eliran Glazer - *monday.com Ltd. - CFO*

Scott, it's Eliran again. I think it's both. We are lending with the new products that we have, the CRM, and other multiple use cases that are being part of our platform. So we land with customers. So it's a combination of new customers and expansion of existing customers.

Operator

Our next question comes from Jason Celino of KeyBanc Capital Markets.

Jason Vincent Celino - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Really great results here. When you mentioned in a prior response September and October, you started to see some softness spread. It looks like you're managing through quite well. But to what magnitude can you clarify, and was it more SMB? And if any regions are worth calling out?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes, Jason, this is Eran. Yes. So as we mentioned, there's some FX headwinds and all the effects that we saw in Europe. I wouldn't say it has any significant impact on one particular group, neither SMBs nor larger enterprises. I would say it's kind of across the board. But definitely, enterprise customers are a bit more stable or kind of don't see any kind of more major impact compared to SMBs. But overall, we're very diverse in terms of our customer base. Many industries, as a reminder, only 30% of our customers are tech companies, 70% are nontech. And we have over 200 different business verticals. So (inaudible) and even our existing customer base, but we don't see any kind of major group that's been affected more than any other group.

Operator

Our next question comes from Robert Simmons of D.A. Davidson.

Robert Edward Simmons - *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

So I was looking at the marketplace, you now have 16 apps there. And I think about 20% are monetized. I guess what's the reasonable expectation for the boost to revenue you're going to see from that next year? Are we saying closer to 1%? Or could it be more meaningful than that?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Yes. So I think like we're not going to -- we're not relying for next year on the marketplace revenue is something that we build any of our models on. And it's something that we just released not so far behind in time and the monetization of it. And I wouldn't build on that. Although we do see a strong momentum there, a lot of interest from developers, and it's very healthy. And we do see the future of Monday being as an open platform and providing a lot of like third-party developers building on us great things. So we are excited about it, but we didn't model next year with the marketplace.

Robert Edward Simmons - *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

And then the decline of net retention, how much of that is purely from FX, and how much is it from other factors like longer and slower sales vehicles?

Eliran Glazer - *monday.com Ltd. - CFO*

So, Robert, it's Eliran. I would say 2% to 3% by and large, is coming from FX, and the rest is the macroeconomic environment.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

And I would also add, increasing, it's really -- like I would also add the increasing deal size initially. Like as we ramped up the sales team and we got better and better, the initial deal size grew. Obviously, they -- like in the past, they started with big self-serve motion, okay? They started very small, and so the NDR ended somewhere. And then we have -- as the brand grew and customer demand grew like they want initial deal sizes that are bigger. And that also has an effect on the NDR.

Operator

Our next question comes from Shebly Saraf from FBN Securities.

Unidentified Analyst

So I noticed that your headcount growth slowed to like 53% from over 200 the prior 2 quarters. I want to know whether there has been recently a deliberate decision to slow down headcount growth. And separately, related maybe is your expense growth for Q4 seems to -- relative to your guidance imply an acceleration in year-to-year growth versus Q3. And so it seems to me that your R&D line is going to accelerate. Is that true? And if so, why is it accelerating so much?

Eliran Glazer - *monday.com Ltd. - CFO*

Shelly, it's Eliran. So welcome on board. With regards to your first question, in prior quarters, we mentioned that we are going to hire most of the people in H1, front-loaded of expenses because we believe this is what will drive revenue into 2022 and the rest of the year. And we mentioned that we are going to be more prudent and have more moderate hiring in H2. We are continuing to hire in places where is really important for us to continue to innovate. R&D. You saw that R&D went up from 17% as a percentage of revenue to 19%. And we also will continue to focus on revenue-generating headcount. So this is with regard to your first question. Your second question, I wasn't sure that you said accelerating top line, just to make sure that I answered the question.

Unidentified Analyst

No. I'm getting in my model that your R&D expense growth is going to be something like 100% in Q4 versus 84% in Q3. Is that right? Is that directionally correct? And if so, why are you going to be accelerating your R&D expense growth?

Eliran Glazer - *monday.com Ltd. - CFO*

R&D... Yes. So I think if I understood this. So we continue to invest, as I mentioned, in R&D. Bear in mind that there is also most of the hiring of R&D in Israel. So there is the FX impact, which also impacts in terms of (inaudible) it's a bulk of a significant part of our cost and just to make sure that I understand, I believe this will cover your question.

Operator

Our next question comes from Jake Roberge from William Blair.

Unidentified Analyst

Congrats on the quarter. Following up on the product size solutions, it's great to see the strong adoption here, and I appreciate the coupon CRM. But once you open those solutions to the existing base, how do you think that monetization path will work, given a number of those customers may already be using some type of CRM template that you released a year or 2 ago?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes, Jake, thanks for the question. This is Eran. So the new products that we released are -- that provide much more value than a template. Basically, what we've done as part of those products is to go very deep future-wise in each one of those products. We had a lot of functionality. A lot of this is proprietary to specifically CRM or developer tools. So it's not just templates or boards or dashboard back to that purpose, but a lot of R&D effort has gone into that. So I think already new customers are getting a lot of value from that. And I'm sure that already -- that also exists customers, we get a lot of value for you to products. Part of that is that we'll help them for those who want to move. We'll build the migration to that will help them try those new products. But (inaudible) we're still focusing on acquiring customers. And over time, we'll start offering those new work for existing ones. And as I said, we see a lot of potentials there.

Unidentified Analyst

And then it seems like growth in the partner channel is really starting to accelerate for both referral partners and the AS marketplace, are there any specific product-type solutions that you've seen partners prioritize in the sales process or really build more tailored solutions on top of the platform?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. So this is Eran again. So apart from extending our global workforce in terms of offering kind of more opportunities for cellular products worldwide. Both quarters also offer the ability to customers to customize their products, help them onboard, help them build more workflows and processes. So part of that also drives the growth in each one of those territories. So we really see them as a value-add partner. So definitely, that's something that's really kind of help with acceleration. And as I said, we're continuing to invest heavily into those partners. And over time, I think it will continue and grow rapidly.

Operator

Our final question for today comes from Brent Thill of Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Just a question on some of your deployments. I think in the past, you've talked about one of your larger customers was pushing over 7,000 seats. Are you starting to see the 10,000-plus seat deals open up? Or are you still -- is that 7,000 seats still the largest deployment you have right now?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. So this is Eran. So definitely, over time, we're increasing our -- we work -- we really kind of work in a sweet spot fashion, meaning that we keep increasing the average enterprise deal size. Up until a year ago, it was around 2,000 seats. We increased it to 5,000. That means that we're able to close those deals quicker and quicker. And basically, we continue to improve the product offer to scale the operation, and we expect this number to increase. We see this more of a way for us to create an organic sales motion within our sales team as opposed to a specific customer that we are in for in terms of landing a very large deal.

Operator

We have no further questions for today. So that concludes today's conference call. Thank you all for joining. You may now disconnect.

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